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PET 6 L. 64A. (E)

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R 201350Z JAN 72
FM AMEMBASSY TRIPOLI
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INFO AMEMBASSY REIRUT
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AMEMBASSY LONDON
AMEMBASSY PARIS

C O N F I D E N T I A L TRIPOLI 0100

C O R R E C T E D C O P Y (LAST PARAGRAPH, LINE 7)

DEPT PASS CAIRO

SURJ: LARG/OASIS PARTICIPATION NEGOTIATIONS

REF: TRIPOLI 0056 DET 6-2-57

SUMMARY: IN BRIEF MEETING WITH PRINIM QALLID AND
MINISTER OF PETROLEUM MABRUK JAN 28, OASIS NEGOTIATORS
REJECTED ENI CONTRACT AS BASIS FOR PARTICIPATION WITH
LARG CITING DIFFERENCE BETWEEN ITALIAN POSITION AND
THEIR OWN AND STRESSING NEED TO KEEP LAR CRUDE
COMPETITIVE. BOTH SIDES AGREED TO BEGIN TECHNICAL
MEETINGS FEB 29. END SUMMARY

1. [REDACTED] GAVE ECONOFF FOLLOWING RUN-DOWN ON JAN 28 MEETING BETWEEN PM JALLUD, MINPET MAHRUK AND OASIS REPS (OASIS NEGOTIATORS ESSENTIALLY SAME AS THOSE REPORTED REFTEL WITH SHAHER AGAIN ACTING AS SPOKESMAN).

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2. JALLUD BEGAN SESSION BY NOTING COMPANIES HAD HAD OPPORTUNITY TO STUDY ENI AGREEMENT. WHAT DID THEY NOW PROPOSE? SHAFER REPLIED THAT COMPANIES FULLY ACCEPTED PRINCIPLE OF PARTICIPATION BUT COULD NOT ACCEPT IT ON TERMS ENI AGREEMENT. FOLLOWING TACTIC PREVIOUSLY AGREED UPON BY COMPANIES HE SOUGHT AVOID DISCUSSION OF SPECIFICS OF ENI CONTRACT BUT DID REFER TO GULF PARTICIPATION AGREEMENTS AND CONDITIONS. FOR EXAMPLE, SHAFER NOTED THAT GULF AGREEMENTS COST COMPANIES APPROXIMATELY 11 CENTS PER BARREL, WHEREAS ENI TYPE CONTRACT HERE WOULD COST THEM THREE TIMES THAT AMOUNT. SIMILARLY, PRODUCTION COSTS IN THE LAR ARE APPROXIMATELY THREE TIMES GREATER THAN IN GULF. HE ADMITTED THAT LAR CRUDE HAS ADVANTAGE OF LOW SULPHUR CONTENT BUT THIS FEATURE HAS ALREADY BEEN GIVEN MAXIMUM CONSIDERATION IN CURRENT PRICING. ULTIMATELY, HE ADDED, LOW SULPHUR WOULD DECREASE IN IMPORTANCE AS NORTH SEA FIELDS COME ON STREAM. SHAFER SUGGESTED THAT TECHNICAL REPRESENTATIVES OF BOTH SIDES MEET SO THAT FIGURES COULD BE DISCUSSED AND PARTICIPATION FORMULA WORKED OUT WHICH WOULD PRESERVE COMPETITIVE QUALITY OF LAR CRUDE.

3. JALLUD SAID THAT COMPARISONS BETWEEN GULF AND LAR ARE NOT VALID. LATTER IS REVOLUTIONARY COUNTRY AND UNLIKE GULF STATES DOES NOT REPEAT NOT NEED PETROLEUM INCOME. (THIS APPARENT DEPARTURE FROM LOGIC IS PROBABLY REPETITION OF IDEA QADHAFI HAS VOICED: THAT LIBYA DID WITHOUT OIL INCOME ONCE AND COULD AGAIN). JALLUD THEN SAID COMPANIES WERE PLAYING SAME OLD TUNE FAMILIAR SINCE 1970 WHEN THEY CLAIMED AN ADDITIONAL TWO CENTS PER BARREL WOULD BREAK THEM. BUT THEY HAD SUCCEEDED IN PASSING ON INCREASED COSTS TO THE CONSUMER. AT CLOSE OF SESSION JALLUD AGREED THAT TECHNICAL MEETINGS SUGGESTED BY SHAFER BEGIN JAN 29 TO PERMIT COMPANIES GIVE FULL AIRING TO PROBLEM OF COMPETITIVENESS OF LAR CRUDE.

COMMENT: OASIS NEGOTIATORS WERE STRUCK BY JALLUD'S APPARENT WILLINGNESS TO LISTEN TO THEIR ARGUMENTS. APART FROM REPETITION ONE OR TWO ROTE PHRASES HE SEEMED NOT TO HAVE CLOSED MIND OR SPECIFIC NEGOTIATING PLAN. WE ARE REPORTING VIA SEPTEL AND AIRGRAM CONTENTS OF

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INTERNAL MINPET MEMO WHICH WE ASSUME INADVERTENTLY APPENDED TO LAW EMBODYING ENI-LARG AGREEMENT. THIS MEMO DISCLOSED HEART OF ENI AGREEMENT AND WILL BE USED BY COMPANIES TO SHOW INAPPLICABILITY OF THIS FORMULA TO REMAINING PRODUCERS HERE. PROBLEM FOR COMPANIES REMAINS NOW AS BEFORE TO STEER LARG AWAY FROM TERMS OF ENI AGREEMENT WHICH THEY CONSIDER EXCESSIVE, AND TOWARD PERSIAN GULF FORMULA. GDS.
JOSIF

NOTE BY OC/T: CORRECTED COPY NOT PASSED CAIRO.

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